COMMUNITY REINVESTMENT ASSOCIATION
of NORTH CAROLINA

February 14, 2011

Douglas Shulman
Commissioner
Internal Revenue Service
1111 Constitution Avenue NW
Washington, DC 20224

Dear Commissioner Schulman,

We are national and regional advocacy groups working to ensure quality, affordable tax services for taxpayers. We write to encourage you to continue on the path of reforming the tax preparation and refund delivery industry. In particular, we urge you to implement IRS plans announced in August of last year to create a limited split refund option to allow taxpayers to pay for tax preparation fees.

Over the past few years, the IRS has taken several critical measures to reform the tax preparation industry. We applaud the IRS's actions to require registration of tax preparers and to end the debt indicator for refund anticipation loans (RALs).

The IRS action to end the debt indicator coincides with federal financial regulatory actions against banks making RALS and refund anticipation checks (RACs). For example, the Office of Thrift Supervision issued a cease and desist order against MetaBank, prohibiting it from making RALs and RACs. The Office of the Comptroller of the Currency issued cease and desist orders against both Pacific Capital Bancorp and HSBC, requiring them to cease RAL and RAC activities. JPMorgan Chase voluntarily exited the business. The FDIC ordered increased oversight of the RAL business of Republic Bank. We anticipate that the FDIC may take further regulatory changes at the end of 2011.

The success in ending unsafe, high cost RALs may raise a secondary challenge. One of the features of RALs is their ability to permit taxpayers to pay for preparation fees out of the refund. With fewer RALs, there may be a need for an alternative method to permit taxpayers to pay for preparation services out of the refund.

Of course, RACs have not been eliminated and remain an option to pay for tax preparation fees. However, there are problems with the use of RACs as well. Tax preparers may charge add-on fees (such as "document preparation" or "transmission" fees) for RACs, adding significantly to their expense. When taxpayers obtain a RAC simply because they cannot afford the price of tax preparation upfront, the RAC is essentially a loan of the tax preparation fee – and an expensive one at that. Paying $30 to borrow a tax preparation fee of $150 for two weeks equates to an APR of 521%!

Thus, we are supportive of the concept of allowing a split refund option that would enable taxpayers to pay for preparation services out of their refunds, a concept which the IRS itself announced that it was pursuing in its press release regarding the termination of the debt indicator. The dollar amount of the split refund to the tax preparer should be limited to avoid abuses, but sufficient to pay for basic tax services. We ask that the IRS update us on the status of this proposed reform as it would need to be implemented well in advance in order to be effective for the 2012 tax season.

P.O. Box 1929 110 East Geer Street Durham, NC 27702 919-667-1557 919-667-1558 fax www.cra-nc.org

At your convenience, we would like to meet with you to discuss these concerns.

Sincerely,

Peter Skillern
Community Reinvestment Association of North Carolina

Chi Chi Wu
National Consumer Law Center
(on behalf of its low-income clients)

Josh Zinner
Neighborhood Economic Development Advocacy Project

Alan Fisher
California Reinvestment Coalition

Dory Rand
Woodstock Institute

Jean Ann Fox
Consumer Federation of America